

ALLEGAN PUBLIC SCHOOLS
REPORT ON FINANCIAL STATEMENTS
(with required supplementary and additional information)
YEAR ENDED JUNE 30, 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Education
Allegan Public Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan Public Schools, as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Allegan Public Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Allegan Public Schools as of June 30, 2008 and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2008, on our consideration of Allegan Public Schools' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages vi through xiii and page 30, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Allegan Public Schools' basic financial statements. The additional information on pages 32 to 46 is presented for purposes of additional analysis and is not a required part of the basic financial statements. This additional information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mayer, Costeniser & Ellis, P.C.

November 5, 2008

MANAGEMENT DISCUSSION AND ANALYSIS

This section of Allegan Public Schools' (APS) annual financial report presents an analysis of the District's financial performance during the fiscal year that ended on June 30, 2008.

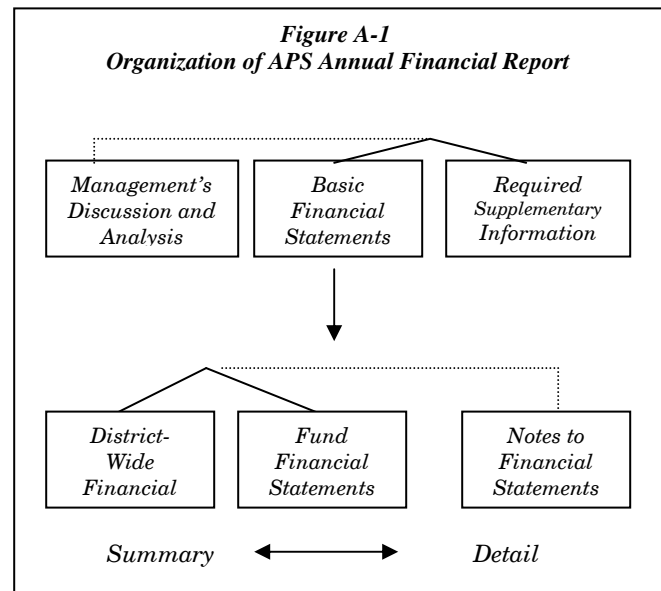
FINANCIAL HIGHLIGHTS

- The District's total net assets increased approximately \$1,500,000.
- Overall revenues were approximately \$28,000,000, fully \$1,500,000 more than expenses.
- The total expenses were \$26,500,000.
- Student enrollment remained virtually stable with a slight decrease.
- The District reduced its outstanding long-term debt approximately \$2,400,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include various kinds of statements that present different views of the District:

- The first two statements are district-wide **financial statements** that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are **fund financial statements** that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The **governmental funds statements** tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
- **Fiduciary funds statements** provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.



The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-2 Major Features of District-Wide and Fund Financial Statements			
	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance.	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	* Statement of net assets * Statement of activities	* Balance sheet * Statement of revenues, expenditures and changes in fund balances	* Statement of fiduciary net assets * Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term, Allegan Public Schools' funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

Figure A-2 summarized the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net assets* and how they have changed. Net assets - the difference between the District's assets and liabilities - are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities:

- *Governmental activities* - Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debts) or to show that it is properly using certain revenues (like school lunch and athletics).

The District has two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information with the governmental funds statements that explain the relationship (or differences) between them.

- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets

The District's combined net assets were more on June 30, 2008, than they were the year before by \$1,499,540.

Table A-3 Allegan Public Schools' Net Assets		
	2008	2007
Current assets	\$ 7,754,399	\$ 6,957,005
Capital assets	45,631,643	47,080,873
Total assets	53,386,042	54,037,878
Long-term debt outstanding	38,099,492	40,600,575
Other liabilities	7,588,647	7,238,940
Total liabilities	45,688,139	47,839,515
Net assets:		
Invested in capital assets, net of related debt	4,177,199	5,580,180
Unrestricted	3,520,704	618,183
Total net assets	\$ 7,697,903	\$ 6,198,363

Table A-4
Changes in Allegan Public Schools' Net Assets

	2008	2007
Revenues:		
Program revenues:		
Charges for services	\$ 658,197	\$ 492,308
Federal and state categorical grants (operating grants)	1,921,602	1,838,361
General revenues:		
Property taxes	7,827,596	7,480,726
State aid - unrestricted	16,949,965	17,249,849
Other	685,708	1,001,436
Total revenues	<u>28,043,068</u>	<u>28,062,680</u>
Expenses:		
Instruction	13,187,022	14,359,349
Support services	7,715,802	8,685,501
Community services	189,696	225,590
Outgoing transfers and other transactions	7,820	-
Food services	985,425	953,811
Athletics	674,766	637,580
Interest on long-term debt	2,077,052	2,120,339
Unallocated depreciation	1,705,945	1,718,318
Total expenses	<u>26,543,528</u>	<u>28,700,488</u>
Increase (decrease) in net assets	<u>\$ 1,499,540</u>	<u>\$ (637,808)</u>

District Governmental Activities

The current status of the District's finances can be credited both to a struggling State economy and innovative management changes and belt-tightening:

- The State increased the foundation allowance to \$7,204 per pupil up from last year's foundation allowance of \$7,085.
- The District successfully negotiated labor contracts with all employee groups that included an average of 1% increases in salaries (other than step increases already negotiated).
- The District continued to maintain an Efficiency Plan which was implemented to include economies in staff professional development, food service, transportation, athletics, professional staffing, and maintenance/custodial services. The goal remains to initiate changes that reduce the cost of operating the District and reinvest the savings in programs to modernize and raise the quality of education.
- The District continued an Energy Management program with an estimated cost avoidance savings of \$605,409 (from November 2004 through August 2008).

These actions resulted in continued savings to the District for school year 2007-2008.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$2,654,309, which is above last year's ending fund balances of \$2,052,772.

The majority of the District's governmental funds had more revenues than expenditures in 2008; thereby contributing to the increase in total fund balance. For the year, the General Fund ran a surplus where expenditures were \$557,378 below revenues after transfers out. Debt Service Funds ended the year with revenues exceeding expenditures by approximately \$44,534. Special Revenue Funds (that record the School Lunch Fund, the Athletic Fund, and the Community Services Fund) ended the year with fund balances being reduced after transfers in by \$375.

Enrollment in the District was 2,814 compared to 2,901 students in the prior year.

General Fund Budgetary Highlights:

Over the course of the year, the District revised the annual operating budget on two occasions. These budget amendments are:

- Changes made to account for final enrollment counts and changes in assumptions since the original budget were adopted.
- While the District's final budget for the general fund anticipated that revenues would be exceed expenditures and transfers by \$150,822, the actual results for the year show a \$557,378 surplus.
- Actual revenues were \$38,018 less than expected, due largely to less local revenue.
- The actual expenditures were \$552,050 below budget, due primarily to staff downsizing and other operational efficiencies implemented during the year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2008 the District had invested \$67.5 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audiovisual equipment and administrative offices. This amount represents a net decrease of \$1,651,676 after depreciation. (More detailed information about capital assets can be found in Note 5 to the financial statements.) Total depreciation expense for 2008 was \$1,842,129.

Table A-5 Allegan Public Schools' Capital Assets				
	2008			2007
	Cost	Accumulated depreciation	Net book value	Net book value
Land	\$ 206,431	\$ -	\$ 206,431	\$ 206,431
Buildings & additions	58,712,170	15,568,829	43,143,341	44,519,255
Technology	1,214,956	905,980	308,976	275,889
Athletic equipment	808,458	495,964	312,494	351,583
General equipment	4,910,100	3,906,581	1,003,519	1,235,469
Transportation equipment	1,627,091	1,340,553	286,538	324,348
Total	<u>\$ 67,479,206</u>	<u>\$ 22,217,907</u>	<u>\$ 45,261,299</u>	<u>\$ 46,912,975</u>

The District's fiscal year 2009 capital budget will include a \$785,000 Energy Conservation Bond.

Long-term Debt

At year-end, the District had \$40.2 million in general obligation bonds and other long-term debt outstanding, a reduction of \$2.4 million. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.)

- The District continued to pay down its debt. During the 2007-2008 school year, the District refunded a portion of the 1998 bonds to take advantage of the lower interest rates available.

Table A-6 Allegan Public School's Outstanding Long-Term Debt 2007 - 2008 <i>(in millions of dollars)</i>		
	2008	2007
General obligation bonds (financed with property taxes)	\$ 33.9	\$ 36.3
Other	6.3	6.3
Total	<u>\$ 40.2</u>	<u>\$ 42.6</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of two existing circumstances that could significantly affect its financial health in the future:

- Negotiations with the teachers and all other employee groups have been completed for the 2008-2009 school year.
- The District is plaintiff with other school districts in a lawsuit against the State, seeking to rectify inequities in the formula the State uses to apportion special education aid to the districts (Durant).

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Superintendent's office, Allegan Public Schools, 550 Fifth Street, Allegan, MI 49010 (269.673.5431).

BASIC FINANCIAL STATEMENTS

**ALLEGAN PUBLIC SCHOOLS
STATEMENT OF NET ASSETS
JUNE 30, 2008**

ASSETS	<u>Governmental activities</u>
CURRENT ASSETS:	
Cash	\$ 3,883,219
Investments	222,262
Receivables:	
Accounts receivable	50,334
Taxes receivable	14,383
Due from other governmental units	3,534,666
Inventories	<u>49,535</u>
 TOTAL CURRENT ASSETS	<u>7,754,399</u>
NONCURRENT ASSETS:	
Deferred charges, net of amortization	370,344
Capital assets	67,479,206
Less accumulated depreciation	<u>(22,217,907)</u>
 TOTAL NONCURRENT ASSETS	<u>45,631,643</u>
TOTAL ASSETS	<u><u>\$ 53,386,042</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 121,398
Accounts payable - fiduciary fund	67,169
Accrued salaries and related items	1,370,437
Accrued interest	430,934
Deferred revenue	430,103
Note payable	3,000,000
Current portion of long-term obligations	2,160,606
Current portion of termination benefits	<u>8,000</u>

TOTAL CURRENT LIABILITIES	<u><u>7,588,647</u></u>
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NONCURRENT LIABILITIES:

Noncurrent portion of long-term obligations	37,981,551
Noncurrent portion of compensated absences and termination benefits	<u>117,941</u>

TOTAL NONCURRENT LIABILITIES	<u><u>38,099,492</u></u>
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TOTAL LIABILITIES	<u><u>45,688,139</u></u>
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NET ASSETS:

Invested in capital assets, net of related debt	4,177,199
Unrestricted	<u>3,520,704</u>

TOTAL NET ASSETS	<u><u>7,697,903</u></u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u><u>\$ 53,386,042</u></u></u>
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**ALLEGAN PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008**

Functions/programs	Expenses	Program revenues		Governmental activities
		Charges for services	Operating grants	Net (expense) revenue and changes in net assets
Governmental activities:				
Instruction	\$ 13,187,022	\$ 36,343	\$ 1,272,182	\$ (11,878,497)
Support services	7,715,802	56,534	126,588	(7,532,680)
Community services	189,696	97,026	6,000	(86,670)
Outgoing transfers and other transactions	7,820	-	-	(7,820)
Food services	985,425	382,410	516,832	(86,183)
Athletics	674,766	85,884	-	(588,882)
Interest on long-term debt	2,077,052	-	-	(2,077,052)
Unallocated depreciation	1,705,945	-	-	(1,705,945)
Total governmental activities	\$ 26,543,528	\$ 658,197	\$ 1,921,602	(23,963,729)
General revenues:				
Property taxes, levied for general purposes				3,879,156
Property taxes, levied for debt service				3,948,440
Investment earnings				118,391
State sources				16,949,965
Intermediate district sources				495,341
Other				71,976
Total general revenues				25,463,269
CHANGE IN NET ASSETS				1,499,540
NET ASSETS, beginning of year				6,198,363
NET ASSETS, end of year				\$ 7,697,903

See notes to the financial statements.

**ALLEGAN PUBLIC SCHOOLS
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	General Fund	Other nonmajor governmental funds	Total governmental funds
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 3,264,728	\$ 618,491	\$ 3,883,219
Investments	222,262	-	222,262
Receivables:			
Property taxes receivable	14,383	-	14,383
Accounts receivable	48,862	1,472	50,334
Due from other governmental units	3,526,331	8,335	3,534,666
Due from other funds	191,263	117,435	308,698
Inventories	33,279	16,256	49,535
TOTAL ASSETS	\$ 7,301,108	\$ 761,989	\$ 8,063,097
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 110,977	\$ 10,421	\$ 121,398
Accounts payable - fiduciary funds	67,169	-	67,169
Accrued interest	96,600	-	96,600
Accrued salaries and related items	1,370,437	-	1,370,437
Due to other funds	-	308,698	308,698
Deferred revenue	444,486	-	444,486
Note payable	3,000,000	-	3,000,000
TOTAL LIABILITIES	5,089,669	319,119	5,408,788

See notes to the financial statements.

	General Fund	Other nonmajor governmental funds	Total governmental funds
FUND BALANCES:			
Reserved for inventories	\$ 33,279	\$ 16,256	\$ 49,535
Reserved for debt service	-	441,187	441,187
Unreserved:			
Designated for subsequent year expenditures	41,207	-	41,207
Undesignated	2,136,953	(14,573)	2,122,380
TOTAL FUND BALANCES	2,211,439	442,870	2,654,309
TOTAL LIABILITIES AND FUND BALANCES	\$ 7,301,108	\$ 761,989	\$ 8,063,097
Total governmental fund balances			\$ 2,654,309
Amounts reported for governmental activities in the statement of net assets are different because:			
Value of amortized bond issuance costs		\$ 392,244	
Accumulated amortization		(21,900)	370,344
Capital assets used in governmental activities are not financial resources and are not reported in the funds			
The cost of the capital assets is		67,479,206	
Accumulated depreciation is		(22,217,907)	45,261,299
Long-term liabilities are not due and payable in the current period and are not reported in the funds:			
Long-term debt			(40,142,157)
Compensated absences and termination benefits			(125,941)
Accrued interest is not included as a liability in government funds, it is recorded when paid			(334,334)
Deferred revenue at June 30, 2008, expected to be collected after September 1, 2008			14,383
Net assets of governmental activities			\$ 7,697,903

See notes to the financial statements.

ALLEGAN PUBLIC SCHOOLS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2008

	General Fund	Other nonmajor governmental funds	Total governmental funds
REVENUES:			
Local sources:			
Property taxes	\$ 3,859,286	\$ 3,958,516	\$ 7,817,802
Investment earnings	86,045	32,346	118,391
Food sales, athletics, and community service	-	468,294	468,294
Other	199,590	42,538	242,128
Total local sources	4,144,921	4,501,694	8,646,615
State sources	17,632,609	56,922	17,689,531
Federal sources	716,126	459,910	1,176,036
Incoming transfers and other	521,092		521,092
Total revenues	23,014,748	5,018,526	28,033,274
EXPENDITURES:			
Current:			
Instruction	13,184,882	-	13,184,882
Supporting services	8,487,386	-	8,487,386
Food service activities	-	983,195	983,195
Athletic activities	-	635,677	635,677
Community service activities	78,806	110,890	189,696
Outgoing transfers and other transactions	7,820	-	7,820
Principal repayment	-	2,334,361	2,334,361
Interest	-	1,748,816	1,748,816

See notes to the financial statements.

	General Fund	Other nonmajor governmental funds	Total governmental funds
EXPENDITURES (Concluded):			
Debt service (Concluded):			
Bond issuance costs	\$ -	\$ 209,746	\$ 209,746
Other	-	31,260	31,260
Total expenditures	<u>21,758,894</u>	<u>6,053,945</u>	<u>27,812,839</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1,255,854</u>	<u>(1,035,419)</u>	<u>220,435</u>
OTHER FINANCING SOURCES (USES):			
Proceeds from issuance of bonds	-	17,210,000	17,210,000
Payments to refunded bond escrow	-	(17,917,934)	(17,917,934)
Bond premium	-	1,089,036	1,089,036
Operating transfers from other funds	-	698,476	698,476
Operating transfers to other funds	<u>(698,476)</u>	<u>-</u>	<u>(698,476)</u>
Total other financing sources (uses)	<u>(698,476)</u>	<u>1,079,578</u>	<u>381,102</u>
NET CHANGE IN FUND BALANCES	557,378	44,159	601,537
FUND BALANCES:			
Beginning of year	<u>1,654,061</u>	<u>398,711</u>	<u>2,052,772</u>
End of year	<u><u>\$ 2,211,439</u></u>	<u><u>\$ 442,870</u></u>	<u><u>\$ 2,654,309</u></u>

See notes to the financial statements.

ALLEGAN PUBLIC SCHOOLS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2008

Net change in fund balances total governmental funds \$ 601,537

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities these costs are allocated over their estimated useful lives as depreciation.

Depreciation expense	(1,842,129)
Capital outlay	191,480
Loss on disposal of capital assets	(1,027)

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable, beginning of the year	291,469
Accrued interest payable, end of the year	(334,334)

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The effect of these differences is the treatment of long-term debt and related items and are as follows:

Proceeds from issuance of bonds	(17,210,000)
Payments on debt	20,394,188
Bond issuance costs	209,746
Premium on issuance of bonds	(1,089,036)
Deferred loss on refunding	595,990
Amortization of bond issuance costs	(7,300)
Amortization of deferred loss on refunding	(51,734)
Amortization of bond premium	31,415
Accrued interest on school bond loan fund	(285,371)

Revenue is recorded on the accrual method in the statement of activities; in the governmental funds it is recorded on the modified accrual method and not considered available:

Deferred revenue, beginning of the year	(4,589)
Deferred revenue, end of the year	14,383

Compensated absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:

Accrued compensated absences and termination benefits, beginning of the year	120,793
Accrued compensated absences and termination benefits, end of the year	(125,941)

Change in net assets of governmental activities	\$ 1,499,540
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ALLEGAN PUBLIC SCHOOLS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2008

	<u>Agency fund</u>
ASSETS:	
Cash	\$ 33,304
Due from general fund	<u>67,169</u>
	<u><u>\$ 100,473</u></u>
 LIABILITIES:	
Accounts payable	\$ 1,822
Due to student groups	<u>98,651</u>
	<u><u>\$ 100,473</u></u>

ALLEGAN PUBLIC SCHOOLS NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Allegan Public Schools have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

A. Reporting Entity

The Allegan Public Schools (the "District") is governed by the Allegan Public Schools Board of Education (the "Board"), which has responsibility and control over all activities related to public school education within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. However, the District is not included in any other governmental reporting entity as defined by the accounting principles generally accepted in the United States of America. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14 and 39.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The District first utilizes restricted resources to finance qualifying activities.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and Fund Financial Statements (Continued)

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues and other revenue). The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds - Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

Other Nonmajor Funds

The *special revenue funds* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service, athletic activities and community services in the special revenue funds.

The *debt service funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *agency fund* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

C. Measurement Focus, Basis of Accounting and Basis of Presentation

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board.

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Basis of Presentation (Concluded)

State Revenue

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on pupil membership counts taken in February and September of 2007.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2007 to August 2008. Thus, the unpaid portion at June 30th is reported as due from other governmental units.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

1. Cash and equivalents include amounts in demand deposits and certificates of deposit.

The District reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* and GASB Statement No. 40, *Deposits and Investment Risk Disclosures*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the district intends to hold the investment until maturity. Accordingly, investments in banker acceptances and commercial paper are recorded at amortized cost.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies

1. Cash and equivalents include amounts in demand deposits and certificates of deposit (Concluded)

State statutes authorize the District to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, savings and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or National Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase. The District is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

2. Property taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied and become a lien as of July 1 and December 1 and are due upon receipt of the billing by the taxpayer and become a lien on the first day of the levy year. The actual due dates are September 14 and February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity.

For the year ended June 30, 2008, the District levied the following amounts per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General fund - Non-homestead	18.0000
Debt service fund - Homestead and non-homestead	7.5500

3. Inventories and prepaid expenditures

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Other Accounting Policies (Continued)

4. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds).

All receivables, including property taxes receivable, are shown net of an allowance for uncollectibles.

5. Capital assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and additions	50 years
Furniture and other equipment	5 - 20 years

The District’s capitalization policy is to capitalize individual amounts exceeding \$5,000.

6. Compensated absences

The District’s contracts generally provide for granting vacation or sick leave with pay. The current and long-term liability for compensated absences is reported on the government-wide financial statements. A liability for these amounts, including related benefits, is reported in governmental funds only if they have matured, for example, as a result of employee leave, resignations or retirements.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Concluded)

D. Other Accounting Policies (Concluded)

7. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities on the statement of net assets. Bond premiums and discounts, as well as issuance costs and the difference between the reacquisition price and the net carrying amount of the old debt, are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method, over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

9. Net asset reporting

In the computation of invested in capital assets, net of related debt, school bond loan fund and school bond revolving fund principal proceeds of \$5,034,519 are considered capital-related debt. Accrued interest on the school bond loan fund and school bond revolving fund of \$1,312,287 has been included in the calculation of unrestricted net assets.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general and special revenue funds. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Significant encumbrances outstanding at year end, if any, are reported as reservations of fund balance because they will be re-appropriated in the subsequent fiscal year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (1968 PA 2). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations, if any, for the general fund are noted in the required supplementary information section.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general and special revenue funds.
6. The budget was amended during the year with supplemental appropriations, the last one approved prior to June 30, 2008. The District does not consider these amendments to be significant.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK

As of June 30, 2008, the District had the following investments.

<u>Investment Type</u>	<u>Fair value</u>	<u>Weighted average maturity (years)</u>	<u>Standard & Poor's Rating</u>	<u>%</u>
MILAF External Investment pool - MICMS	\$ 179,176	0.0027	AAAm	80.6%
MILAF External Investment pool -MIMAX	43,086	0.0027	AAAm	19.4%
Total fair value	<u>\$ 222,262</u>			<u>100.0%</u>
Portfolio weighted average maturity		<u>0.0027</u>		

1 day maturity equals 0.0027, one year equals 1.00

The District voluntarily invests certain excess funds in external pooled investment funds, which included money market funds. One of the pooled investment funds utilized by the District is the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of “qualified” investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports as of June 30, 2008, the fair value of the District’s investments is the same as the value of the pool shares.

Interest rate risk. In accordance with its investment policy, the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and, investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District’s cash requirements.

Credit risk. State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs).

Concentration of credit risk. The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District’s investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 3 - DEPOSITS AND INVESTMENTS - CREDIT RISK (Continued)

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2008, \$4,520,543 of the District's bank balance of \$4,620,543 was exposed to custodial credit risk because it was uninsured and uncollateralized. The above amounts include interest bearing accounts. The carrying amount on the financial statements is \$3,883,219 and \$33,304 for the fiduciary assets.

Custodial credit risk - investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party

The District will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities allowed by law; and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Foreign currency risk. The District is not authorized to invest in investments, which have this type of risk.

The amounts are reported in the financial statements as follows:

Cash agency fund	\$ 33,304
Cash - District-wide	3,883,219
Investments - District-wide	<u>222,262</u>
	<u><u>\$ 4,138,785</u></u>

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 4 - RECEIVABLES

Receivables from governmental units at June 30, 2008 consist of the following:

General fund:

State aid	\$ 3,176,562
Federal revenue	243,744
Other	<u>106,025</u>
	3,526,331

Food service fund:

Federal revenue	<u>8,335</u>
	<u><u>\$ 3,534,666</u></u>

No allowance for doubtful accounts is considered necessary.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 - CAPITAL ASSETS

A summary of changes in the District's capital assets follows:

	Balance June 30, 2007	Additions	Deletions	Balance June 30, 2008
Assets not being depreciated - land	\$ 206,431	\$ -	\$ -	\$ 206,431
Other capital assets:				
Buildings and additions	58,712,170	-	-	58,712,170
Technology	1,982,095	136,480	(903,619)	1,214,956
Athletic equipment	808,458	-	-	808,458
General equipment	4,910,100	-	-	4,910,100
Transportation equipment	1,572,091	55,000	-	1,627,091
Subtotal	67,984,914	191,480	(903,619)	67,272,775
Accumulated depreciation:				
Buildings and additions	14,192,915	1,375,914	-	15,568,829
Technology	1,706,206	102,366	(902,592)	905,980
Athletic equipment	456,875	39,089	-	495,964
General equipment	3,674,631	231,950	-	3,906,581
Transportation equipment	1,247,743	92,810	-	1,340,553
Total accumulated depreciation	21,278,370	1,842,129	(902,592)	22,217,907
Net other capital assets	46,706,544	(1,650,649)	(1,027)	45,054,868
Net capital assets	<u>\$ 46,912,975</u>	<u>\$ (1,650,649)</u>	<u>\$ (1,027)</u>	<u>\$ 45,261,299</u>

Depreciation for assets serving multiple functions is unallocated.

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
Athletics	\$ 39,089
Food services	2,230
Support services	94,865
Unallocated	<u>1,705,945</u>
	<u>\$ 1,842,129</u>

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 6 - NOTE PAYABLE

At June 30, 2008 the District has outstanding a \$3,000,000 revenue note (state aid note) dated August 20, 2007. The note, which has an interest rate of 3.68%, matures August 20, 2008. The note is secured by the full faith and credit of the District as well as pledged state aid.

Balance June 30, 2007	Additions	Payments	Balance June 30, 2008
<u>\$ 2,500,000</u>	<u>\$ 3,000,000</u>	<u>\$ 2,500,000</u>	<u>\$ 3,000,000</u>

The District has borrowed \$3,500,000 for the year ending June 30, 2009.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT

The District issues general obligations bonds and Michigan Municipal Bond Authority bonds and notes to provide funds for the acquisition, construction and improvement of major capital facilities, as well as, the purchase of equipment. These bonds and notes are direct obligations and pledge the full faith and credit of the District. Long-term debt is as follows:

\$25,290,000 - 1998 refunding bonds (non-refunded portion) due in one annual installments of \$1,580,000 due May 1, 2009; interest at 4.50%	\$ 1,580,000
\$17,890,000 - 2000 general obligation bond issue (non-refunded portion) due in annual installments of \$475,000 through May 1, 2010; interest from 5.50% to 6.00%	950,000
\$13,925,000 - 2005 refunding bonds due in annual installments of \$60,000 to \$740,000 through May 1, 2030; interest from 3.00% to 5.00%	13,760,000
\$17,210,000 - 2008 refunding bonds due in annual installments of \$765,000 to \$1,610,000 through May 1, 2022; interest at 5.00%	17,210,000
Plus: premium on bond refunding	1,780,166
Less: deferred amount on bond refunding	<u>(1,734,147)</u>
	33,546,019
 \$463,213 - School Improvement Bonds Limited Obligation Bonds (Durant) due in annual installments of \$25,779 to \$75,096 through May 15, 2013; interest at 4.76%. Certain State Aid payments have been pledged as security.	 <u>189,852</u>
Total bonded debt	33,735,871
Loan from AAESA - payments of \$19,827 annually	59,480
Borrowings from the State of Michigan under the School Bond Loan and Revolving Loan Funds, including interest	6,346,806
Compensated absences	<u>125,941</u>
Total general long-term debt	<u><u>\$ 40,268,098</u></u>

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Continued)

The annual requirements to amortize long-term debt outstanding excluding compensated absences and school bond loan fund borrowings as of June 30, 2008, including interest of \$15,130,001 are as follows:

Year ending June 30,	Principal	Interest	Total
2009	\$ 2,160,606	\$ 1,823,920	\$ 3,984,526
2010	2,239,923	1,551,795	3,791,718
2011	2,183,118	1,422,749	3,605,867
2012	2,174,637	1,320,001	3,494,638
2013	2,191,048	1,215,504	3,406,552
2014-2018	10,895,000	4,528,532	15,423,532
2019-2023	6,725,000	2,231,500	8,956,500
2024-2028	3,700,000	925,000	4,625,000
2029-2030	1,480,000	111,000	1,591,000
	<u>\$ 33,749,332</u>	<u>\$ 15,130,001</u>	48,879,333
Premium on bond refunding			1,780,166
Deferred charge on bond refunding			(1,734,147)
Borrowings from the State of Michigan under the School Bond Loan and			6,346,806
Compensated absences			<u>125,941</u>
Total long-term debt including interest			<u>\$ 55,398,099</u>

\$441,187 of funds are available in the debt service funds to service the general obligation debt.

Borrowing from the State of Michigan - The school bond loans payable represents notes payable to the State of Michigan for loans made to the school district, as authorized by the State of Michigan Constitution, for the purpose of paying principal and interest on general obligation bonds of the school district issued for capital expenditures. Interest rates are to be annually determined by the State Administrative Board. Interest rates ranging from 4.38456% - 4.82341 % for the School Revolving Fund notes and 4.25% - 4.75% for the School Bond Loan Fund notes have been assessed for the year ended June 30, 2008. Repayment is required when the millage rate necessary to cover the annual bonded debt services falls below 7.55 mills. The school district is required to levy 7.55 mills and repay to the state any excess of the amount levied over the bonded debt service requirements. Due to the variability of the factors that affect the timing of repayment, including the future amount of state-equalized value of property in the school district, no provision for repayment has been included in the above amortization schedule.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 7 - LONG-TERM DEBT (Concluded)

The following is a summary of long-term debt transactions of the District for the year ended June 30, 2008:

	Compensated absences	Bonds and other debt	Total
Balance July 1, 2007	\$ 120,793	\$ 42,527,609	\$ 42,648,402
Additions	5,148	18,636,141	18,641,289
Deletions	-	(21,021,593)	(21,021,593)
Balance June 30, 2008	125,941	40,142,157	40,268,098
Less current portion	(8,000)	(2,160,606)	(2,168,606)
Total due after one year	<u>\$ 117,941</u>	<u>\$ 37,981,551</u>	<u>\$ 38,099,492</u>

On January 21, 2008, Allegan Public School District issued general obligation bonds of \$17,210,000 with an interest rate at 5.00% to advance refund a portion of a prior refunding bond with an interest rate ranging from 4.60% to 5.10%. The refunding bonds mature on May 1, 2022. The general obligation bonds were issued at a premium after paying issuance costs of \$209,746, the net proceeds were \$18,299,036. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the school building and site bonds are called on May 1, 2009. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the District's government-wide financial statements.

As a result of the advance refunding, the District reduced its total debt service requirements by \$1,152,129, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$851,327.

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account, assets and liabilities for the defeased bonds are not included in the District's financial statements. At June 30, 2008, \$32,940,000 of bonds outstanding are considered defeased.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 8 - EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer state-wide defined benefit public employee retirement plan governed by the State of Michigan. The MPERS provides retirement survivor and disability benefits and postretirement benefits for health, dental and vision for substantially all employees of the District. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30171, Lansing, Michigan 48909-7671 or by calling (800) 381-5111.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Actuarial rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2008 were 17.74% of payroll through September 30, 2007 and 16.72% effective October 1, 2007 through June 30, 2008. The contribution requirements of plan members and the District are established and may be amended by the MPERS Board of Trustees. The District contributions to MPERS for the years ended June 30, 2008, 2007 and 2006 were \$2,145,000, \$2,360,000 and \$2,080,000, respectively, and were equal to the required contribution for those years.

Other Post-employment Benefits - Retirees have the option of health coverage, which is funded on a cash disbursement basis by the employers. The System has contracted to provide the comprehensive group medical, hearing, dental and vision coverages for retirees and beneficiaries. A significant portion of the premiums is paid by the System with the balance deducted from the monthly pension.

The District is not responsible for the payment of retirement benefits and post-employment benefits which is the responsibility of the State of Michigan.

**ALLEGAN PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS**

NOTE 9 - INTERFUND RECEIVABLES AND PAYABLES

Interfund payable and receivable balances at June 30, 2008 are as follows:

Receivable fund		Payable fund	
General fund	\$ 191,263	2008 debt service fund	\$ 56,905
2000 debt service fund	117,435	2005 debt service fund	26,604
		1998 debt service fund	65,216
		Athletic fund	13,192
		School lunch fund	131,073
		Community service fund	15,708
	<u>\$ 308,698</u>		<u>\$ 308,698</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

NOTE 10 - RISK MANAGEMENT

The District is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District participates in a pool of educational institutions within the State of Michigan for self-insuring workers' disability compensation. The pool is considered a public entity risk pool. The District pays annual premiums to the pool for insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The pool maintains reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The District has not been informed of any special assessments being required.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2008 or any of the prior three years.

The District is self insured for dental coverage. The current year expense for June 30, 2008 was approximately \$155,000. Any liability for incurred and unreported claims is considered immaterial.

NOTE 11 - TRANSFERS

The general fund transferred \$83,451 to the school lunch fund, \$548,906 to the athletic fund, and \$66,119 to the community services fund. The transfers were to subsidize operations in these funds.

REQUIRED SUPPLEMENTARY INFORMATION

**ALLEGAN PUBLIC SCHOOLS
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2008**

	Original budget	Final budget	Actual	Variance with final budget- positive (negative)
REVENUES:				
Local sources	\$ 4,183,157	\$ 4,278,051	\$ 4,144,921	\$ (133,130)
State sources	17,418,303	17,461,676	17,632,609	170,933
Federal sources	782,236	786,876	716,126	(70,750)
Incoming transfers and other	434,903	526,163	521,092	(5,071)
Total revenues	<u>22,818,599</u>	<u>23,052,766</u>	<u>23,014,748</u>	<u>(38,018)</u>
EXPENDITURES:				
Current:				
Instruction:				
Basic programs	11,245,298	10,716,273	10,326,712	389,561
Added needs	2,399,208	2,853,162	2,753,341	99,821
Adult and community education	69,877	72,033	104,829	(32,796)
Total instruction	<u>13,714,383</u>	<u>13,641,468</u>	<u>13,184,882</u>	<u>456,586</u>
Supporting services:				
Pupil	1,889,942	1,629,492	1,615,810	13,682
Instructional staff	423,804	463,358	469,123	(5,765)
General administration	518,708	504,038	532,521	(28,483)
School administration	1,451,489	1,451,865	1,454,173	(2,308)
Business	376,024	369,820	475,641	(105,821)
Operation/maintenance	2,638,064	2,793,933	2,598,027	195,906
Pupil transportation	1,206,177	1,200,158	1,204,460	(4,302)
Central	170,822	149,685	137,631	12,054
Total supporting services	<u>8,675,030</u>	<u>8,562,349</u>	<u>8,487,386</u>	<u>74,963</u>
Community services	<u>96,445</u>	<u>100,287</u>	<u>78,806</u>	<u>21,481</u>
Outgoing transfers and other transactions	<u>9,500</u>	<u>6,840</u>	<u>7,820</u>	<u>(980)</u>
Total expenditures	<u>22,495,358</u>	<u>22,310,944</u>	<u>21,758,894</u>	<u>552,050</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>323,241</u>	<u>741,822</u>	<u>1,255,854</u>	<u>514,032</u>
OTHER FINANCING USES:				
Operating transfers to other funds	<u>(560,375)</u>	<u>(591,000)</u>	<u>(698,476)</u>	<u>(107,476)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (237,134)</u>	<u>\$ 150,822</u>	<u>557,378</u>	<u>\$ 406,556</u>
FUND BALANCE:				
Beginning of year			<u>1,654,061</u>	
End of year			<u>\$ 2,211,439</u>	

ADDITIONAL INFORMATION

**ALLEGAN PUBLIC SCHOOLS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUND TYPES
JUNE 30, 2008**

	<u>Special revenue</u>	<u>Debt service</u>	<u>Total nonmajor governmental funds</u>
ASSETS			
ASSETS:			
Cash and cash equivalents	\$ 146,014	\$ 472,477	\$ 618,491
Accounts receivable	1,472	-	1,472
Due from other governmental units	8,335	-	8,335
Due from other funds	-	117,435	117,435
Inventories	16,256	-	16,256
TOTAL ASSETS	<u>\$ 172,077</u>	<u>\$ 589,912</u>	<u>\$ 761,989</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 10,421	\$ -	\$ 10,421
Due to other funds	159,973	148,725	308,698
TOTAL LIABILITIES	<u>170,394</u>	<u>148,725</u>	<u>319,119</u>
FUND BALANCES:			
Reserved for inventories	16,256	-	16,256
Reserved for debt service	-	441,187	441,187
Unreserved, undesignated	(14,573)	-	(14,573)
TOTAL FUND BALANCES	<u>1,683</u>	<u>441,187</u>	<u>442,870</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 172,077</u>	<u>\$ 589,912</u>	<u>\$ 761,989</u>

ALLEGAN PUBLIC SCHOOLS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2008

	<u>Special revenue</u>	<u>Debt service</u>	<u>Total nonmajor governmental funds</u>
REVENUES:			
Local sources:			
Property taxes	\$ -	\$ 3,958,516	\$ 3,958,516
Investment earnings	3,247	29,099	32,346
Food sales, admissions and community services	468,294	-	468,294
Other	42,538	-	42,538
Total local sources	514,079	3,987,615	4,501,694
State sources	56,922	-	56,922
Federal sources	459,910	-	459,910
Total revenues	1,030,911	3,987,615	5,018,526
EXPENDITURES:			
Current:			
Food service activities	983,195	-	983,195
Athletic activities	635,677	-	635,677
Community service activity	110,890	-	110,890
Debt service:			
Principal repayment	-	2,334,361	2,334,361
Interest expense	-	1,748,816	1,748,816
Bond issuance costs	-	209,746	209,746
Other expense	-	31,260	31,260
Total expenditures	1,729,762	4,324,183	6,053,945
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(698,851)	(336,568)	(1,035,419)
OTHER FINANCING SOURCES (USES):			
Proceeds from sale of refunding bonds	-	17,210,000	17,210,000
Payment to refunded bond escrows	-	(17,917,934)	(17,917,934)
Bond premium	-	1,089,036	1,089,036
Operating transfers from other funds	698,476	-	698,476
Total other financing sources	698,476	381,102	1,079,578
NET CHANGE IN FUND BALANCES	(375)	44,534	44,159
FUND BALANCES:			
Beginning of year	2,058	396,653	398,711
End of year	\$ 1,683	\$ 441,187	\$ 442,870

**ALLEGAN PUBLIC SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2008**

	Food Service	Athletic	Community Service	Totals
ASSETS				
ASSETS:				
Cash and cash equivalents	\$ 113,634	\$ 13,730	\$ 18,650	\$ 146,014
Accounts receivable	1,472	-	-	1,472
Due from other governmental units	8,335	-	-	8,335
Inventories	16,256	-	-	16,256
TOTAL ASSETS	\$ 139,697	\$ 13,730	\$ 18,650	\$ 172,077
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 6,941	\$ 538	\$ 2,942	\$ 10,421
Due to other funds	131,073	13,192	15,708	159,973
TOTAL LIABILITIES	138,014	13,730	18,650	170,394
FUND BALANCES:				
Reserved for inventories	16,256	-	-	16,256
Unreserved/undesignated	(14,573)	-	-	(14,573)
TOTAL FUND BALANCES	1,683	-	-	1,683
TOTAL LIABILITIES AND FUND BALANCES	\$ 139,697	\$ 13,730	\$ 18,650	\$ 172,077

**ALLEGAN PUBLIC SCHOOLS
SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2008**

	Food Service	Athletic	Community Service	Totals
REVENUES:				
Sales	\$ 382,410	\$ -	\$ -	\$ 382,410
State aid	56,922	-	-	56,922
Federal aid	459,910	-	-	459,910
Admissions	-	85,884	-	85,884
Investment earnings	2,047	744	456	3,247
Other	138	143	42,257	42,538
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenues	901,427	86,771	42,713	1,030,911
	<hr/>	<hr/>	<hr/>	<hr/>
EXPENDITURES:				
Salaries	280,749	339,385	71,693	691,827
Benefits	189,400	106,468	28,507	324,375
Purchased services	47,290	53,280	2,694	103,264
Supplies and materials	34,716	31,263	4,257	70,236
Other expenses	431,040	105,281	3,739	540,060
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures	983,195	635,677	110,890	1,729,762
	<hr/>	<hr/>	<hr/>	<hr/>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(81,768)	(548,906)	(68,177)	(698,851)
	<hr/>	<hr/>	<hr/>	<hr/>
OTHER FINANCING SOURCES:				
Operating transfers from other funds	83,451	548,906	66,119	698,476
	<hr/>	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCES	1,683	-	(2,058)	(375)
	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCES:				
Beginning of year	-	-	2,058	2,058
	<hr/>	<hr/>	<hr/>	<hr/>
End of year	<u>\$ 1,683</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,683</u>

**ALLEGAN PUBLIC SCHOOLS
DEBT SERVICE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2008**

	<u>1998</u>	<u>2000</u>	<u>2005</u>	<u>2008</u>	<u>Total Nonmajor</u>
ASSETS					
ASSETS:					
Cash and cash equivalents	\$ 149,668	\$ 94,696	\$ 55,549	\$ 172,564	\$ 472,477
Due from other funds	<u>-</u>	<u>117,435</u>	<u>-</u>	<u>-</u>	<u>117,435</u>
TOTAL ASSETS	<u><u>\$ 149,668</u></u>	<u><u>\$ 212,131</u></u>	<u><u>\$ 55,549</u></u>	<u><u>\$ 172,564</u></u>	<u><u>\$ 589,912</u></u>
LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Due to other funds	\$ 65,216	\$ -	\$ 26,604	\$ 56,905	\$ 148,725
FUND BALANCES:					
Reserved for debt service	<u>84,452</u>	<u>212,131</u>	<u>28,945</u>	<u>115,659</u>	<u>441,187</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 149,668</u></u>	<u><u>\$ 212,131</u></u>	<u><u>\$ 55,549</u></u>	<u><u>\$ 172,564</u></u>	<u><u>\$ 589,912</u></u>

**ALLEGAN PUBLIC SCHOOLS
DEBT SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2008**

	<u>1996</u>	<u>1998</u>	<u>2000</u>	<u>2005</u>	<u>2008</u>	<u>Total Nonmajor</u>
REVENUES:						
Local sources:						
Property taxes	\$ -	\$ 2,563,101	\$ 523,028	\$ 772,332	\$ 100,055	\$ 3,958,516
Investment earnings	-	11,177	3,661	5,434	8,827	29,099
Total revenues	-	2,574,278	526,689	777,766	108,882	3,987,615
EXPENDITURES:						
Principal repayments	-	1,635,748	489,555	113,708	95,350	2,334,361
Interest on debt	-	1,027,930	77,124	643,762	-	1,748,816
Bond issuance costs	-	-	-	-	209,746	209,746
Other expense	-	12,007	3,933	5,838	9,482	31,260
Total expenditures	-	2,675,685	570,612	763,308	314,578	4,324,183
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	-	(101,407)	(43,923)	14,458	(205,696)	(336,568)
OTHER FINANCING SOURCES:						
Proceeds from sale of refunding bonds	-	-	-	-	17,210,000	17,210,000
Payment from (to) refunded bond escrows	-	171,356	-	-	(18,089,290)	(17,917,934)
Bond premium	-	-	-	-	1,089,036	1,089,036
Operating transfers from (to) other funds	(111,609)	-	-	-	111,609	-
Total other financing sources (uses)	(111,609)	171,356	-	-	321,355	381,102
NET CHANGE IN FUND BALANCES	(111,609)	69,949	(43,923)	14,458	115,659	44,534
FUND BALANCES:						
Beginning of year	111,609	14,503	256,054	14,487	-	396,653
End of year	\$ -	\$ 84,452	\$ 212,131	\$ 28,945	\$ 115,659	\$ 441,187

**ALLEGAN PUBLIC SCHOOLS
AGENCY FUNDS
(INTERNAL FUNDS)
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2008**

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Student council - West Ward	\$ 5,092	\$ 4,218	\$ 4,435	\$ 4,875
West Ward library	1,938	4,717	3,984	2,671
Student council - Dawson	2,255	1,140	2,527	868
Student council - North Ward	1,550	1,487	1,839	1,198
Student council - Pine Trails	4,120	1,000	1,266	3,854
Junior Hi-lights	1,901	7,828	6,324	3,405
Student council - Jr. High	11,253	22,512	22,913	10,852
Quiz bowl	587	373	401	559
AHS literary magazine	11	2,338	950	1,399
Spanish club - Sr. club	1,825	166	744	1,247
French club	1,144	2,175	2,019	1,300
Echo - Yearbook	1,708	25,391	23,320	3,779
Power club	7,726	19,383	19,425	7,684
Decca club	1,358	140	1,000	498
National Honor society	3,637	3,727	3,643	3,721
Michigan Youth in government	363	2,936	2,816	483
Fellowship	719	140	330	529
Student council - Sr. High	4,184	15,506	14,809	4,881
Senior High recycling	393	140	-	533
Library - Sr. High	251	-	-	251
Senior high band	296	140	140	296
School store - Orange Krate	11,157	16,789	16,510	11,436
Dramatics - Sr. High	6,378	5,111	7,741	3,748
SADD - AHS chapter	531	-	-	531
Class of 1995	943	-	-	943

**ALLEGAN PUBLIC SCHOOLS
AGENCY FUNDS
(INTERNAL FUNDS)
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND LIABILITIES BY ACTIVITY
YEAR ENDED JUNE 30, 2008**

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Class of 1999	\$ 1,394	\$ -	\$ -	\$ 1,394
Class of 2001	383	-	-	383
Class of 2002	131	-	-	131
Class of 2003	407	-	-	407
Class of 2004	3,915	-	1,905	2,010
Class of 2005	1,038	-	-	1,038
Class of 2006	1,686	-	-	1,686
Class of 2007	3,436	-	2,747	689
Class of 2008	4,496	3,338	5,386	2,448
Class of 2009	3,204	6,898	5,476	4,626
Class of 2010	670	759	850	579
Class of 2011	-	500	30	470
Swim Club	473	10,426	9,401	1,498
Student council - Southward	8,656	10,144	13,206	5,594
Horticulture	4,020	3,318	5,492	1,846
Video production	1,858	1,335	882	2,311
	<u>\$ 107,087</u>	<u>\$ 174,075</u>	<u>\$ 182,511</u>	<u>\$ 98,651</u>

**ALLEGAN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2008**

\$25,290,000 Refunding Bonds issued March 11, 1998:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May1,	June 30,	Amount
<u>\$ 1,580,000</u>	<u>\$ 35,550</u>	<u>\$ 35,550</u>	2009	<u>\$ 1,651,100</u>

The above bond issue bears interest at 4.5%. The bond proceeds were used to refund the 1992 and 1996 bond issues.

**ALLEGAN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2008**

\$17,890,000 Bonds issued August 10, 2000:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May 1,	June 30,	Amount
\$ 475,000	\$ 27,313	\$ 27,313	2009	\$ 529,626
475,000	14,250	14,250	2010	503,500
<u>\$ 950,000</u>	<u>\$ 41,563</u>	<u>\$ 41,563</u>		<u>\$ 1,033,126</u>

The above bond issue bears interest at rates ranging from 5.5% to 6.00%. The bond proceeds were used for construction of a new auditorium and pool.

**ALLEGAN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2008**

\$13,925,000 Refunding Bonds issued March 11, 2006:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May1,	June 30,	Amount
\$ 60,000	\$ 321,056	\$ 321,056	2009	\$ 702,112
60,000	320,156	320,156	2010	700,312
535,000	319,256	319,256	2011	1,173,512
555,000	308,556	308,556	2012	1,172,112
580,000	296,763	296,763	2013	1,173,526
600,000	285,887	285,887	2014	1,171,774
615,000	273,888	273,888	2015	1,162,776
635,000	261,588	261,588	2016	1,158,176
655,000	245,713	245,713	2017	1,146,426
670,000	232,940	232,940	2018	1,135,880
690,000	219,875	219,875	2019	1,129,750
710,000	202,625	202,625	2020	1,115,250
735,000	184,875	184,875	2021	1,104,750
740,000	166,500	166,500	2022	1,073,000
740,000	148,000	148,000	2023	1,036,000
740,000	129,500	129,500	2024	999,000
740,000	111,000	111,000	2025	962,000
740,000	92,500	92,500	2026	925,000
740,000	74,000	74,000	2027	888,000
740,000	55,500	55,500	2028	851,000
740,000	37,000	37,000	2029	814,000
740,000	18,500	18,500	2030	777,000
<u>\$ 13,760,000</u>	<u>\$ 4,305,678</u>	<u>\$ 4,305,678</u>		<u>\$ 22,371,356</u>

The above bond issue bears interest at rates ranging from 3.00% to 5.00%. The bond proceeds were used for refunding a portion of the School District's outstanding 2000 School Building and Site Bonds.

**ALLEGAN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2008**

\$17,210,000 Refunding Bonds issued March 11, 2006:

Principal due May 1,	Interest due		Debt service requirement for fiscal year	
	November 1,	May1,	June 30,	Amount
\$ -	\$ 619,082	\$ 430,250	2009	\$ 1,049,332
1,610,000	430,250	430,250	2010	2,470,500
1,600,000	390,000	390,000	2011	2,380,000
1,590,000	350,000	350,000	2012	2,290,000
1,580,000	310,250	310,250	2013	2,200,500
1,570,000	270,750	270,750	2014	2,111,500
1,560,000	231,500	231,500	2015	2,023,000
1,545,000	192,500	192,500	2016	1,930,000
1,530,000	153,875	153,875	2017	1,837,750
1,515,000	115,625	115,625	2018	1,746,250
775,000	77,750	77,750	2019	930,500
790,000	58,375	58,375	2020	906,750
780,000	38,625	38,625	2021	857,250
765,000	19,125	19,125	2022	803,250
<u>\$ 17,210,000</u>	<u>\$ 3,257,707</u>	<u>\$ 3,068,875</u>		<u>\$ 23,536,582</u>

The above bond issue bears interest at a rate of 5.00%. The bond proceeds were used for refunding a portion of the School District's outstanding 1998 Refunding Bonds.

**ALLEGAN PUBLIC SCHOOLS
BONDED DEBT
JUNE 30, 2008**

\$463,213 1998 School Improvement Bonds (Durant Bonds)
issued November 24, 1998 (Limited Obligation Bonds)

Principal due May 15,	Interest due May 15,	Debt service requirement for fiscal year	
		June 30,	Amount
\$ 25,779	\$ 6,750	2009	\$ 32,529
75,096	22,483	2010	97,579
28,292	4,237	2011	32,529
29,637	2,889	2012	32,526
31,048	1,478	2013	32,526
<u>\$ 189,852</u>	<u>\$ 37,837</u>		<u>\$ 227,689</u>

The above bond issue bears interest at 4.76%.

This bond, including the interest hereon, is issued in anticipation of payments appropriated and to be appropriated by the State under Section 11g(3) of Act 94 to the School District (the "State Aid Payments"). The School District hereby pledges and assigns to the Authority all of its rights to and in such State Aid Payments as security for this bond and the State Aid Payments which are hereby pledged shall be subject to a statutory lien in favor of the Authority as authorized by Act 94. This bond is a self-liquidating bond and is not a general obligation of the School District and does not constitute an indebtedness of the School District within any constitutional or statutory limitation, and is payable both as to principal and interest, solely from such State Aid Payments. The School District, as requested by the Authority, hereby irrevocably authorizes the payment of the State Aid Payments directly to the Authority's Depository.

**ALLEGAN PUBLIC SCHOOLS
AAESA LOAN
JUNE 30, 2008**

\$79,307 for the purchase of data storage and wide area network loan dated April 2007.

<u>June 30,</u>	<u>Principal</u>
2009	\$ 19,827
2010	19,827
2011	<u>19,826</u>
	<u>\$ 59,480</u>

ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF BORROWING - STATE OF MICHIGAN
SCHOOL BOND LOAN AND REVOLVING LOAN FUNDS
JUNE 30, 2008

Amounts needed for the payment of bond principal and interest in excess of receipts from property taxes are borrowed from the Michigan School Bond Loan Fund. These loans, together with accrued interest payable thereon, are to be repaid when the debt retirement millage rate provides funds in excess of the amounts needed to pay current bond maturities and interest. The borrowings from the State of Michigan under this program have been summarized as follows:

Year ended June 30,	Loan proceeds/ (repayments)	Accrued interest	Net change	Balance
2000	\$ 417,581	\$ 14,521	\$ 432,102	\$ 432,102
2001	1,199,605	31,801	1,231,406	1,663,508
2002	1,357,660	80,220	1,437,880	3,101,388
2003	268,991	111,985	380,976	3,482,364
2004	1,426,095	117,002	1,543,097	5,025,461
2005	203,987	152,352	356,339	5,381,800
2006	446,839	229,772	676,611	6,058,411
2007	28,122	289,263	317,385	6,375,796
2008	(314,361)	285,371	(28,990)	6,346,806

ALLEGAN PUBLIC SCHOOLS
ADDITIONAL REPORTS REQUIRED BY
OMB CIRCULAR A-133
YEAR ENDED JUNE 30, 2008

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Lamonte T. Lator
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Jeffrey C. Stevens
Linda I. Schirmer
Steven W. Scott
David M. Raeck
Robert E. Miller, Jr.
Steven B. Robbins
James E. Nyquist
James R. Dedyne

Timothy H. Adams
David B. Caldwell
Edward L. Williams, III
Timothy J. Orians
Dennis D. Theis
James A. McNeeley

Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Education
Allegan Public Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Allegan Public Schools as of and for the year ended June 30, 2008, which collectively comprise Allegan Public Schools' basic financial statements and have issued our report thereon dated November 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Allegan Public Schools' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described as 2008-01, 2008-02, and 2008-03 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiencies described above as 2008-01, 2008-02, and 2008-03 we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Allegan Public Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Allegan Public Schools in a separate letter dated November 5, 2008.

Allegan Public Schools' response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Allegan Public Schools' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mamie Costeniser & Ellis, P.C.

November 5, 2008



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**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Education
Allegan Public Schools

Compliance

We have audited the compliance of Allegan Public Schools with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Allegan Public Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Allegan Public Schools' management. Our responsibility is to express an opinion on Allegan Public Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Allegan Public Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Allegan Public Schools' compliance with those requirements.

In our opinion, Allegan Public Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Allegan Public Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Allegan Public Schools' internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the district's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Allegan Public Schools as of and for the year ended June 30, 2008, and have issued our report thereon dated November 5, 2008. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise Allegan Public Schools basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Mayer, Costeniser & Ellis, P.C.

November 5, 2008

ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue July 1, 2007	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue June 30, 2008
U.S. Department of Agriculture:							
Passed through Michigan Department of Education:							
Child Nutrition Cluster:							
National School Lunch Program:	10.555						
71950 & 71960 Lunch (2006-2007)		\$ 34,506	\$ -	\$ 278,667	\$ 34,506	\$ 34,506	\$ -
71980 Snacks (2006-2007)		96	-	-	96	96	-
81950 & 81960 Lunch (2007-2008)		291,121	-	-	291,121	291,121	-
81980 Snacks (2007-2008)		481	-	-	481	481	-
Total National School Lunch Program		326,204	-	278,667	326,204	326,204	-
National School Breakfast Program	10.553						
71970 Breakfast (2006 - 2007)		7,952	-	-	7,952	7,952	-
81970 Breakfast (2007 -2008)		75,574	-	-	77,257	75,574	1,683
Total National School Breakfast Program		83,526	-	-	85,209	83,526	1,683
Special Milk Program for Children	10.556						
71940 Special Milk Program (2006-2007)		368	-	-	368	368	-
81940 Special Milk Program (2007-2008)		2,818	-	-	2,818	2,818	-
Total Special Milk Program for Children		3,186	-	-	3,186	3,186	-
Total Child Nutrition Cluster		412,916	-	278,667	414,599	412,916	1,683

The accompanying notes are an integral part of this schedule.

ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue July 1, 2007	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue July 30, 2008
U.S. Department of Agriculture (Concluded):							
Passed through Michigan Department of Education:							
Food Distribution:	10.550						
Entitlement Commodities		\$ 45,238	\$ -	\$ -	\$ 45,238	\$ 45,238	\$ -
Bonus Commodities		73	-	-	73	73	-
Total USDA Non-Cluster Assistance		45,311	-	-	45,311	45,311	-
Total U.S. Department of Agriculture		458,227	-	278,667	459,910	458,227	1,683
U.S. Department of Education:							
Passed through Michigan Department of Education:							
Title I:	84.010						
Project number 071530-0607		448,655	115,151	380,826	-	115,151	-
Project number 081530-0708		522,215	-	-	483,630	348,298	135,332
Total Title I		970,870	115,151	380,826	483,630	463,449	135,332
Title V:	84.298						
Project number 070250-0607		602	520	520	-	520	-
Project number 080250-0708		671	-	-	671	-	671
Total Title V		1,273	520	520	671	520	671
Ed Tech - Formula Grants	84.318						
Project number 074290-0607		4,581	4,581	4,581	-	4,581	-
Project number 084290-0708		4,276	-	-	3,575	-	3,575
Total Ed Tech		8,857	4,581	4,581	3,575	4,581	3,575

The accompanying notes are an integral part of this schedule.

ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue July 1, 2007	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue July 30, 2008
U.S. Department of Education (Concluded):							
Passed through Michigan Department of Education:							
Improving Teacher Quality:	84.367						
Project number 070520-0607		\$ 147,262	\$ 27,638	\$ 145,385	\$ 1,877	\$ 29,515	\$ -
Project number 080520-0708		147,879	-	-	131,506	38,898	92,608
Total Improving Teacher Quality		295,141	27,638	145,385	133,383	68,413	92,608
Total passed through Michigan Department of Education		1,276,141	147,890	531,312	621,259	536,963	232,186
Passed through Allegan Area Educational Service Agency:							
PL94-142 Pre School Incentive:	84.173						
Project number 080460		5,669	-	-	5,669	5,669	-
Passed through Ottawa County Intermediate School District:							
Drug Free Schools and Communities:	84.186						
Project number 082860		9,610	-	-	7,333	9,610	(2,277)
Passed through Office of Safe and Drug-Free Schools:							
Mentoring Program Grants Q184B050035	84.184B	199,384	1,840	87,302	75,065	65,347	11,558
Total U.S. Department of Education		1,490,804	149,730	618,614	709,326	617,589	241,467

The accompanying notes are an integral part of this schedule.

ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal grantor/pass-through grantor/program title	Federal CFDA number	Approved grant award amount	Accrued (deferred) revenue July 1, 2007	Prior year expenditures	Current year expenditures	Current year cash receipts	Accrued (deferred) revenue July 30, 2008
U.S. Department of Labor							
Passed through Allegan Area Educational Service Agency:							
WIA Cluster	17.259						
Youth Tuition WIA-053-07		\$ 2,114	\$ -	\$ -	\$ 2,114	\$ 2,114	\$ -
U.S. Department of Health and Human Services							
Passed through Allegan Area Educational Service Agency:							
Temporary Assistance for Needy Families	93.558						
Work First Jet Tuition WR-010-07		4,686	-	-	4,686	4,686	-
Medical assistance program	93.778	6,781			6,781	6,781	-
Total U.S. Department of Health and Human Services		11,467	-	-	11,467	11,467	-
TOTAL FEDERAL AWARDS		<u>\$ 1,962,612</u>	<u>\$ 149,730</u>	<u>\$ 897,281</u>	<u>\$ 1,182,817</u>	<u>\$ 1,089,397</u>	<u>\$ 243,150</u>

The accompanying notes are an integral part of this schedule.

ALLEGAN PUBLIC SCHOOLS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Allegan Public Schools and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The information in this schedule is presented in accordance with OMB Circular A-133 and reconciled with the amounts presented in the preparation of the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Title I (CFDA #84.010) and Child Nutrition Cluster (CFDA #10.553, 10.555 and 10.556) were audited as major programs and represent 76% of expenditures.

2. The threshold for distinguishing Type A and B programs was \$300,000.

3. Federal expenditures are reported as revenue in the following funds in the financial statements:

General fund	\$ 716,126
Other nonmajor governmental funds	<u>459,910</u>
Total per financial statements	\$ 1,176,036
Add: Medicaid reimbursement recorded as local revenue	<u>6,781</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u><u>\$ 1,182,817</u></u>

4. Management has utilized the Grant Section Auditors' Report (Form R7120) and the Grant Audit Report in preparing the Schedule of Expenditures of Federal Awards.

5. The National School Lunch Program Commodities Entitlement award was \$45,238. The District received commodities totaling \$45,238. Based upon confirmation from the Michigan Department of Education, \$45,238 has been recorded.

Sysco Grand Rapids	<u><u>\$ 45,238</u></u>
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6. The amounts reported on the Receipt Entitlement Balance Report agree with this schedule for USDA donated food commodities.

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

➤ Material weakness(es) identified? X Yes No

➤ Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes X No

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

➤ Material weakness(es) identified: Yes X No

➤ Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes X None reported

Type of auditors' report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
#84.010 #10.553, #10.555 and #10.556	Title I Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? Yes X No

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Section II – Financial Statement Findings

Finding 2008-1 Considered a material weakness

Criteria: Material audit adjustments were proposed by the external auditor and accepted and recorded by the client.

Condition: Adjustments were not made to accurately reflect the transactions taking place at year end. All entries proposed by the external auditors were recorded and included in the June 2008 audit report.

Context: Failure to make material adjustments increases the risk that the financial information will be materially misstated. The District did implement a new accounting software system during the year. This did place extra time requirements on staff implementing the new system.

Effect: Inaccurate financial information may be used for management decisions and reporting.

Cause: Lack of review by the staff and management of the accounting transactions that have occurred at year end.

Recommendation: The District should review year end transactions and record journal entries for any transactions not recorded.

Finding 2008-2 Considered a material weakness

Criteria: During the year, month-end reconciliations of primary asset and liability accounts were not completed in a timely manner generally within 30 days of month-end. This resulted in year-end adjustments to several accounts.

Condition: During the year, various balance sheet accounts were not adjusted and reviewed monthly. At year end June 30, 2008, material asset and liability accounts have been reconciled and adjusted where appropriate.

Context: Failure to reconcile accounts monthly increase the risk financial information will be materially misstated. The District did implement a new accounting software system during the year. This did place extra time requirements on staff implementing the new system.

Effect: Inaccurate interim financial information may be used for management decisions and reporting.

Cause: Completion of reconciliations primarily in the area of accounts receivable, accounts payable, accrued liabilities and revenue on a monthly basis was not completed.

Recommendation: The District should implement month-end procedures to appropriately reconcile primary asset and liability accounts on a timely basis. This will improve the accuracy of interim reporting.

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008**

Finding 2008-3 Considered a material weakness

Criteria: Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition: Currently, the District's staff requests the external auditor's assistance in the preparation of the annual financial statements and related footnotes.

Context: External assistance is required to prepare the annual financial statements and related footnotes.

Effect: Utilization of the external auditor in preparing the financial statements and related footnotes to the financial statements assists management with the external financial reporting responsibility, to ensure their financial statements are accurate.

Cause: The staff of the District does understand all information included in the annual financial statements; however, assistance of the external auditor was utilized in preparing the financial statements and footnotes to the financial statements.

Recommendation: At this time, we recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

Section III – Federal Award Findings and Questioned Costs

There were no findings or questioned costs for the year ending June 30, 2008.

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

Finding 2007-1 Considered a material weakness

Criteria: Material audit adjustments were proposed by the external auditor and accepted and recorded by the client.

Condition: Adjustments were not made to accurately reflect the transactions taking place at year end. All entries proposed by the external auditors were recorded and included in the June 2007 audit report.

Context: Failure to make material adjustments increases the risk that the financial statements will be materially misstated.

Effect: Inaccurate financial information may be used for management decisions and reporting.

Cause: Lack of review by the staff and management of the accounting transactions that have occurred at year end.

Recommendation: The District should review year-end transactions and record journal entries for any transactions not recorded.

Status: The District is continuing its effort to implement year end review and recording of journal entries to appropriately record all transactions. Refer to Finding 2008-1.

Finding 2007-2

Criteria: During the year, month-end reconciliations of primary asset and liability accounts were not completed in a timely manner generally within 30 days of month-end. This resulted in year-end adjustments to several accounts.

Condition: During the year, all cash and other balance sheet accounts were not adjusted and reviewed monthly. At year end June 30, 2007, all bank accounts and material asset and liability accounts had been reconciled and adjusted where appropriate.

Effect: Inaccurate interim financial information may be used for management decisions and reporting.

Cause: Completion of reconciliations primarily in the area of cash, investments, accounts receivable, accounts payable, accrued liabilities and revenue on a monthly basis were not completed.

Recommendation: The District should implement month-end procedures to appropriately reconcile primary asset and liability accounts on a timely basis. This will improve the accuracy of interim reporting.

Status: The District is continuing its effort to implement month-end procedures to appropriately reconcile primary asset and liability accounts on a timely basis. Refer to Finding 2008-2.

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

Finding 2007-3 Considered a material weakness

Criteria: Effective for the year ended June 30, 2007, Statement on Auditing Standards #112 titled *Communicating Internal Control Related Matters Identified in an Audit* (issued May 2006), requires us to communicate in writing when a client requires assistance to prepare the financial statements and footnotes required in the annual audit report in accordance with accounting principles generally accepted in the United States of America.

Condition: Currently, the District's staff requests the external auditor's assistance in the preparation of the annual financial statements and related footnotes.

Context: External assistance is required to prepare the annual financial statements and related footnotes.

Effect: Utilization of the external auditor in preparing the financial statements and related footnotes to the financial statements assists management with the external financial reporting responsibility, to ensure their financial statements are accurate.

Cause: The staff of the District does understand all information included in the annual financial statements; however, assistance of the external auditor was utilized in preparing the financial statements and footnotes to the financial statements.

Recommendation: At this time, we recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

Status: As of June 30, 2008 there have been no changes to this situation. Refer to Finding 2008-3.

**ALLEGAN PUBLIC SCHOOLS
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2008**

Finding 2007-4 Considered a significant deficiency

Federal Programs: Title I CFDA #84.010

Specific Requirement: Cash management

Criteria: The grant in question allows for cash advances for up to three days of cash needs.

Condition: The District incorrectly forecasted its cash needs and received cash advances in excess of immediate cash needs.

Questioned Costs: The District may owe interest income earned back to the Michigan Department of Education. Subsequent to June 30, 2007, \$58,838 had been received and not expended. The excess cash was subsequently refunded prior to the date of this report to the Michigan Department of Education.

Context: This is a long-standing program for the District and the inexperience of the employee involved with administering this program resulted in this error. This was an isolated occurrence.

Effect: The District received the benefit of interest earnings on the unspent federal funds.

Cause: Premature request of funds which could not be spent within the subsequent three days.

Recommendation: The District should base its cash advance requests on accruable expenditures which meet the three day needs criteria.

Status: The excess cash was refunded to the Michigan Department of Education. Management has implemented controls to insure that funds requested have already been spent.

**ALLEGAN PUBLIC SCHOOLS
CORRECTIVE ACTION PLAN
JUNE 30, 2008
CONTACT PERSON: DON KOPERSKI
OVERSIGHT AGENCY: U.S. DEPARTMENT OF EDUCATION**

Allegan Public Schools respectfully submits the following corrective action plan for the year ended June 30, 2008.

Auditor: Maner, Costerisan & Ellis, P.C.
544 Cherbourg Drive, Suite 200
Lansing, Michigan 48917-5010

Audit Period: Year ended June 30, 2008

The findings from the June 30, 2008 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the number assigned in the schedule.

Finding - Financial statement audit

Finding 2008-1 Considered a material weakness

Recommendation: The District should review year end transactions and record journal entries for any transactions not recorded.

Action to be taken: We concur with the recommendation. We will review year end transactions to insure that they are recorded in the proper period. The implementation of the new accounting software system has been completed.

Finding 2008-2 Considered a material weakness

Recommendation: The District should implement month-end procedures to appropriately reconcile primary asset and liability accounts on a timely basis. This will improve the accuracy of interim reporting.

Action to be taken: We concur with the recommendation. We have worked diligently to resolve all issues. We are currently in the process of instituting month-end closing procedures.

Finding 2008-3 Considered a material weakness

Recommendation: At this time, we recommend no changes to this situation and communicate this as required by professional standards. The current process meets the definition of a material weakness as defined in Statement on Auditing Standards #112.

Action to be taken: We will continue to rely on our external auditors to assist in the preparation of the annual audited financial statements and footnotes.



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Walter P. Maner, Jr. (1921-2004)
Floyd L. Costerisan
Leon A. Ellis (1933-1988)

November 5, 2008

To the Board of Education
Allegan Public Schools
Allegan, Michigan

In planning and performing our audit of the financial statements of Allegan Public Schools as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Allegan Public Schools' internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated November 5, 2008 on the financial statements of Allegan Public Schools. Our comments are summarized as follows.

Prior Year Comments

Overview - Numerous comments were addressed during the year. This letter identifies the comments which have been implemented and others which were addressed but not fully implemented during the year.

We have issued a separate report identifying significant deficiencies which need to be addressed. Certain prior year comments are addressed in the additional reports required by *OMB Circular A-133 Schedule of Findings and Questioned Costs*.

Separate Debt Service Funds

Status: Currently, all of the debt service fund assets, liabilities, equity and activities are recorded in one fund. To improve reporting and reconciling procedures, we recommend that each debt service fund be broken out into its own fund noting all individual balances and activity in a format similar to the audit report.

Accounting System

Status: Management has transitioned to a new software package. We recommend that management and staff continue training on the new software to obtain efficiencies. We also recommend that the district update the accounting procedures manual for the new software.

Current Year Comments

Recreation Department Receipts

Currently payments to the recreation department can be mailed directly to the school, or paid in person. When a payment to the school is made in person a receipt is issued, when a payment is paid by mail no receipt is issued.

We recommend that Allegan Public Schools mail receipts to all individuals who mail in payments to the recreation department.

Food Service Receipts

Currently, students can pay for meals by cash or check each serving time or parents can pay by credit card over the phone. Neither students nor parents receive receipts for food payments unless requested.

We recommend that all payments for food be accompanied by a receipt which is either distributed upon receipt of payment or mailed to parents for phone payments.

Timely deposits

Through the course of our review of the cash receipts process we discovered that cash receipts are not being deposited in a timely manner. At the present time cash receipts are accumulated in a safe and deposits are sent by courier to the bank. As a result, there is increased risk of loss from theft and cash is not available for expenditures or investment.

We recommend that deposits are processed and couriered to the bank on a daily basis as they are received. We also recommend the District investigate utilizing new technology to scan in cash receipts on site, eliminating the need to deliver deposits.

Invoice Documentation

Allegan Public Schools does not have a policy of cancelling invoices and supporting documents at the time invoices are entered into the general ledger. Thus, the invoices are susceptible to unintentional duplicate entry. We did not encounter any duplicate payments.

We recommend that all invoices entered into the general ledger are reviewed and date-stamped. The documentation should include the date the invoice was entered into the general ledger and the initials of the persons who checked the invoice detail. Such a procedure would add very little time to the accounts payable process and would prevent against double entry of the invoice.

Segregation of Duties - Payroll Process

Our review of the District's payroll system disclosed that the person responsible for preparing the payroll also performs other payroll and personnel duties. Specifically the payroll technician currently enters in and monitors her own paid-time-off and hours, and is also in charge of adding new employees and pay changes. The payroll technician is also in charge of printing checks and preparing them for mailing.

We recommend that District employees be cross-trained and that some of the payroll duties mentioned above be separated to increase segregation in the payroll process. We also recommend periodic review of new employees and pay changes.

Journal Entry Review

Our review of the general journal entries revealed that entries prepared by the Business Manager are not properly reviewed and approved.

We recommend the adoption of a policy whereby appropriate management personnel review and approve journal entries performed by the Business Manager on a monthly or periodic basis. We also recommend that all reviewed and approved journal entries are initialed by the reviewer.

Time Certifications

During our testing of the Title I program, we noted that many of the time certifications maintained by the District did not agree to actual employee time postings and subsequent allocation to general ledger accounts. Even though the allocations per the time sheets relating to the employees we tested agreed with the general ledger, if an employee is expected work solely on a single federal award, charges for their salaries must be supported by periodic certifications. While it is not necessary for the District to maintain semi-annual time certifications from employees who are not 100% dedicated to a federal funded program, the District will want to review on a regular basis the allocation applied to each federally funded employee as allocations change throughout the year.

Month-end Procedures Checklist

During the recently completed audit, we were required by new professional auditing standards to review, inspect, test and gain a further understanding of the District's internal controls. The increased emphasis on documentation of procedures performed will continue into the future. We have provided District personnel with a month-end procedures checklist which can be customized further for your District. The purpose of this checklist is to provide District personnel with a centralized list of required month-end procedures, as well as a place to document who completed the procedure and who reviewed the procedure performed.

We recommend the District consider implementing this checklist on a monthly basis to improve documentation of required month-end procedures and clearly document when and by whom the procedure was performed and reviewed.

Uninsured Bank Deposits

During recent months, we have all heard the numerous issues involving the banking industry. Currently, it is our understanding; there are limits to FDIC insured balances. Generally, the limits are \$100,000 for demand accounts (checking) and \$100,000 for time deposit accounts (savings/certificates of deposit). Districts may also request certain funds be collateralized by the bank. There are other options regarding investing surplus funds from investment pools and treasury investments to commercial paper.

We are not investment advisors; however, we encourage you to meet with your investment representatives to review all of your options regarding surplus funds. We also recommend you review the District's investment policy to ensure it continues to satisfy the District's goals.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of Allegan Public Schools, management, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the cooperation we received from your staff during our engagement and the opportunity to be of service.

Very truly yours,

Mamie Costeniser & Ellis, P.C.



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November 5, 2008

To the Board of Education
Allegan Public Schools
550 Fifth St
Allegan, Michigan 4910

We have audited the financial statements of Allegan Public Schools for the year ended June 30, 2008, and have issued our report thereon dated November 5, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered Allegan Public Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirement that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Allegan Public Schools' financial statements are free of material misstatement, we performed test of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Allegan Public Schools' compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Allegan Public Schools' compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Allegan Public Schools' compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you about planning matters on September 16, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Allegan Public Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the liability of the payout of employee compensated absences upon their retirement is based on expected payout. We evaluated the key factors and assumptions used to develop the balance of compensated absences in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit. The completion of the audit was delayed. One of the reasons for the delay was the implementation of the new accounting software.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In our judgment, some of the adjustments we proposed, which were recorded by the District, either individually or in the aggregate, indicate matters that could have a significant effect on the school district's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 5, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Education and management of Allegan Public Schools and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Mayer, Costeniser & Ellis, P.C.